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SIPDIS

STATE PASS USTR FOR SCHANDLER, JMELLE, JMENDENHALL

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SUBJECT: AMBASSADOR'S MEETING WITH PREMIER CHAREST: QUEBEC
READY TO TALK ON SOFTWOOD

Classified By: WMOORE

11. (C) Summary: Quebec Premier Charest has told us that Quebec, Ontario and BC are trying to develop a common negotiating position and, if the U.S. makes the "right decision" on October 28, will push PM Martin to go back to the table. The provinces are looking at a combination domestic tax/tariff proposal. End Summary.

12. (C) In a meeting with the Ambassador on Tuesday, Oct. 18, Premier Charest said that the Premiers of Ontario, Quebec and BC had met last Friday at B.C. Premier Campbell's request to try to develop common positions on the softwood issue. According to Charest, Ontario and Quebec have similar positions on softwood, while B.C.'s approach is slightly different because of the beetle infestation issue; however, all want to get Canada back to the negotiating table with the U.S. The three Provinces plan to propose a hybrid approach to solve the softwood issue: a combination of a domestic tax and a tariff.

13. (C) However, they see the U.S. response to the latest NAFTA panel remand, due October 28, as a key indication of U.S. seriousness; if our response is satisfactory they will take that as a signal that it is time to return to the table. Charest observed that PM Martin has indicated that the GOC's position is that they will not return to the table until the deposits are returned. The three provinces have a slightly more flexible take on the deposit issue; they are willing to start negotiations, but with the deposit issue as the first agenda item to be solved. The other key agenda issue, in their view, will be how to avoid "Lumber V".

14. (C) The Ambassador asked whether PM Martin would seek a resolution of the softwood dispute before the election (still forecast for the March-April 2006 timeframe). Charest responded that one of the questions Quebec asks itself is how serious Ottawa is about resolving the issue. Charest seemed somewhat hopeful that the three provinces would be able to get PM Martin to the table. Quebec has no leverage, because Martin knows he can't get more Liberal votes in Quebec for the election. But British Columbia does have leverage as Campbell is in a position to deliver more seats for the Liberal party in the next election.

15. (C) Charest also said that he is prepared to tell PM Martin that if Martin wants to continue taking a hard line against negotiations, the federal government also needs to be prepared to start financially supporting our softwood companies, as some are close to going under. If Ottawa continues to refuse to negotiate, the provinces expect to ratchet up the pressure on Martin. (Comment: one Quebec industry official has publicly floated the idea of Federal loan guarantees for companies using the accumulated deposits as collateral; additional subsidies, no matter how marginal, to help Canadian firms survive CVD action strike us as a further complication of the issues. End comment)

16. (U) In public remarks in the Quebec National Assembly, Charest said that Quebec is going to work through the federal government, and that BC, Ontario and Quebec are discussing the matter now. Charest has appointed former PQ Premier Pierre Marc Johnson to be Quebec's negotiator with the other two provinces; Johnson is currently in Vancouver discussing the matter with his counterparts. Charest publicly said at a joint press conference with Ambassador Wilkins that we needed to get back to the negotiating table.

17. (C) Comment: Pressure is clearly building here to move forward from the current impasse. Industry is not disposed to await the outcome of the current round of litigation; industry contacts have told us that possibly 80% of industry wants to come back to the table now. The challenge will be to get provincial industries with diverse structures and interests behind a common negotiating position if we are to avoid a repeat of last summer's talks. End comment.

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